HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Peterborough CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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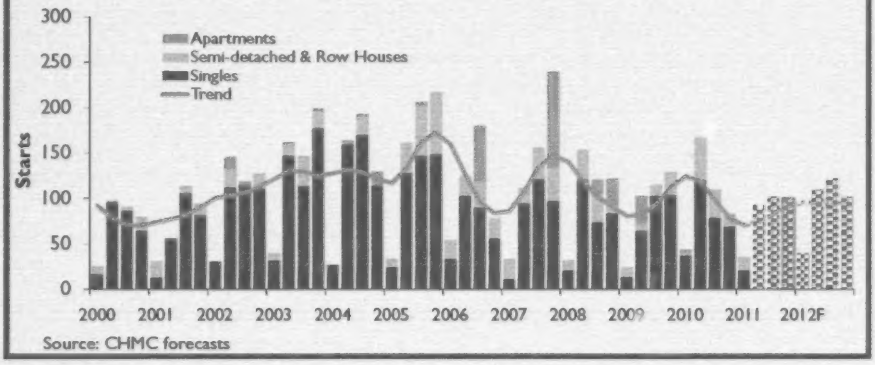
Market at a Glance

- Existing home sales have moderated and are expected to stabilize later this year and into 2012. However, on average, sales will be lower in 2011 compared to the previous year.
- Starts will follow the same pattern as the resale market, declining in 2011 before recovering in 2012. The decline between the average levels from 2010 to 2011 will be more pronounced than in the resale market.
- Improving labour market conditions and rising incomes will help partially offset the impact on housing demand of increasing mortgage carrying costs.

Figure 1

New Home Starts Bottoming Out in 2011



Source: CHMC forecasts

[1] The forecasts included in this document are based on information available as of April 28, 2011.

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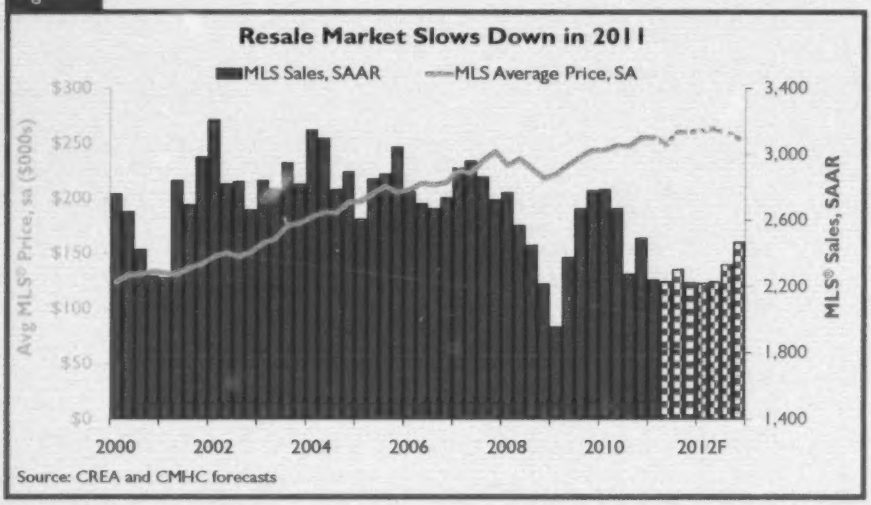
Figure 2



Resale Market

Gradual Recovery Throughout 2011

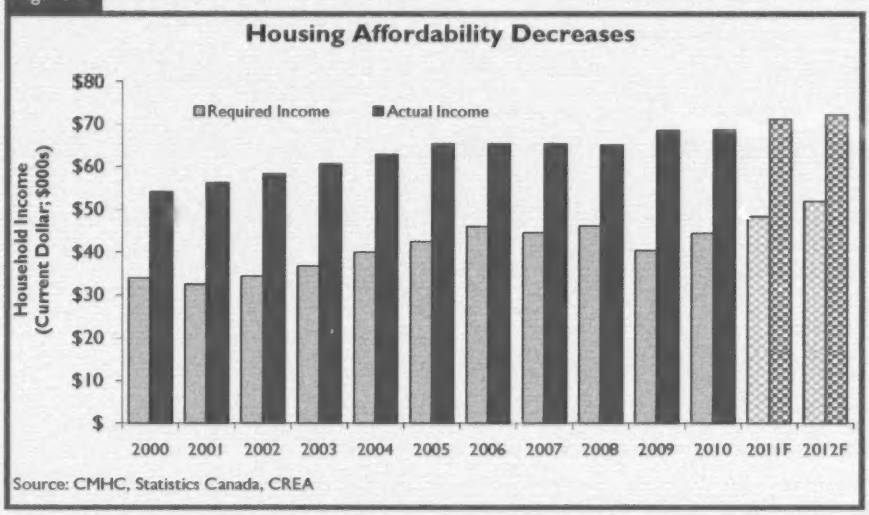
Sales of existing homes will be down considerably in 2011. Some buyers accelerated their decision to buy by purchasing later last year to avoid changes in the mortgage market. This suggests that some consumer demand has been satisfied. Home buying activity, nonetheless, is expected to stabilize later this year and post some modest growth into 2012. This trend will continue in 2012, albeit at a restrained pace, as the economy continues to expand in the Peterborough area. While the overall economy will improve, circumstances in the labour market will restrain the demand for existing homes. Peterborough's unemployment rate is high compared to other areas in the province, with only Windsor and Oshawa being worse off. Both first-time buyers and move-up buyers are less inclined to purchase homes when faced with uncertainty in the labour market.

Another factor restraining sales is income growth. Although incomes will recover in 2011, the combined impact of modest changes in home prices, mortgage rates and amortization periods will cause the income needed to buy a home in Peterborough to increase faster than the average actual income in the area.

Offsetting the challenging labour market conditions is Peterborough's reputation, with its proximity to the GTA, as an attractive retirement community in Ontario. Many baby boomers who are preparing for retirement will consider the area as a possible retirement option. As the smallest census metropolitan area, it offers many of the advantages of a large city without many of the drawbacks, such as lower housing affordability. The average price of an existing home in Peterborough is less than two-thirds the average price of an existing home in Toronto. In other words, Toronto homeowners can get the same home in Peterborough and have money left over.

New listings will remain at a strong level for the remainder of 2011. A steady stream of move-up buyers entering the market will mean that listings will increase faster than sales. With more listings relative to sales, the market will be balanced and buyers will be able to take more time to make their homebuying decisions.

Figure 3



[1] Required income is mortgage carrying costs divided by .32 to reflect the usual qualifying criteria of most lenders. Mortgage carrying costs are based on a ten per cent downpayment, the posted fixed fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

A balanced resale market suggests little price growth, so the average price of homes sold in the resale market will increase modestly, in line with inflation.

New Home Market

New Construction Expected to Slow

As in the resale market, the market for new homes will begin to improve in 2011, but remain weak. Although the unemployment rate has started to turn down from recessionary levels, continued weakness in the labour market will have an impact on new home sales through 2011. Many potential homebuyers are unwilling to commit to a major purchase such as a new home during times of economic uncertainty. As well, the pull forward of home purchases into the first half of 2010 – as homebuyers bought in anticipation of increased mortgage rates – will continue to hamper home starts throughout 2011. This effect will dissipate in 2012, translating to more activity in the new home market. At the same time, the softening of the resale market means less spill-over to the new construction market. Overall, starts in 2011 will be down despite some recovery from the downturn at the end of 2010.

Single-detached homes will continue to dominate the market with a market share of about 75 per cent. However starts will drop significantly from 2010 levels. Construction in this segment is sensitive to market demand because it is based on individual sales. Builders are becoming creative in offering a variety of low-priced homes and in communities which include commercial and recreational facilities. Peterborough is included in the growth plan for the Greater Golden Horseshoe and building types which use land more intensely will increase as a percentage of total starts to comply with provincial requirements. By 2012, new construction will begin to pick up, driven by increasing demand for small single-detached homes.

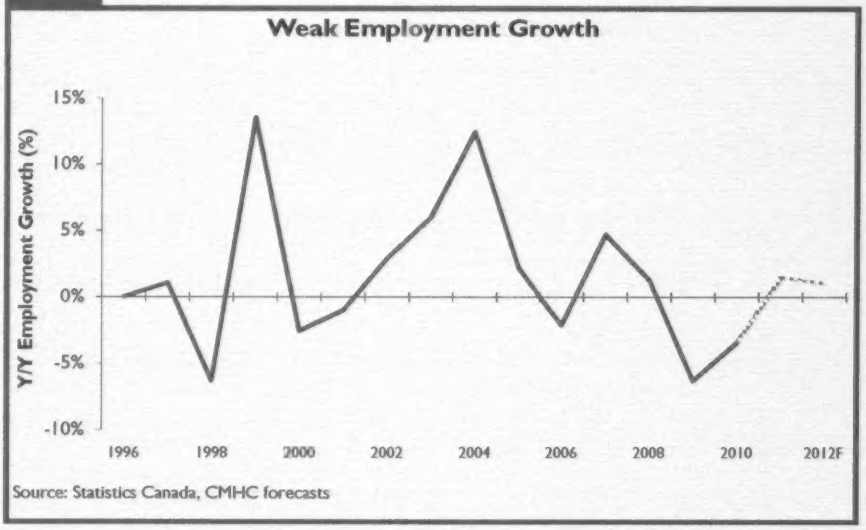
Demand for higher density housing types will also experience a drop in 2011, reflecting market conditions, although the decrease will not be as severe compared to singles. Better relative conditions in the market for town homes and apartments are partially a function of the shift to less expensive homes. The trend towards smaller singles will limit new home price increases in the years to come. After a sizeable drop last year of ten per cent, the prices of a new single-detached home will inch up this year at approximately the same rate as the general price level. Given an ample number of housing options offered by builders at affordable prices, buyers will opt for developments that offer recreational amenities as well as other everyday conveniences.

Local Economy

Employment Improving Slowly

Although signs of recovery are evident, employment growth will continue to be a challenge. After more than 2,000 jobs lost in 2010, employment in 2011 is expected to show only slight improvement. With better conditions in the job market, more individuals are seeking employment which will expand the labour force. As a result, unemployment will show a minor improvement from 2010 levels. Greater certainty about the job market in Peterborough will spur home-buying decisions, to an extent. The improving conditions will also

Figure 4



have a positive impact on incomes. Average weekly earnings were flat in 2010, however, with the improving labour market, income will grow at a healthy rate in 2011 before levelling off somewhat the following year.

Employment in the area has been affected by the restructuring of manufacturing companies and a shift from goods-based economy to knowledge economy which requires fewer workers. Four out of five jobs in the area are now in service-producing industries. Although Peterborough has a relatively low level of exposure to manufacturing jobs, the goods-producing sector continues to shed jobs. While the area benefits from a strong retirement community, creating opportunities for growth in services to seniors, less growth in the health sector will have an impact on the service industry as a whole.

Baby Boomers the Dominant Force of Migration

Net migration into the Peterborough CMA is expected to be relatively strong over the next two years, with net additions of 440 and 490 in 2011 and 2012 respectively. Intra-provincial migration will be the leading factor behind migration to the area. As the oldest baby boomers begin to reach retirement age, it is expected that many will chose to move to Peterborough. The cost of living in Peterborough is considerably lower than Toronto and other nearby large urban centres, while still offering a high quality of life. As well, an improving job market will slow the movement of younger groups in the population to other areas.

Mortgage Rate Outlook

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Peterborough CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	2,506	2,458	2,537	2,250	-11.3	2,300	2.2
MLS® New Listings	5,264	4,578	5,032	5,100	1.4	4,900	-3.9
MLS® Average Price ($)	230,656	236,637	249,763	255,000	2.1	260,000	2.0
New Home Market							
Starts:							
Single-Detached	300	286	306	240	-21.6	280	16.7
Multiples	128	85	98	90	-8.2	90	0.0
Semi-Detached	0	0	16	5	-68.8	10	100.0
Row/Townhouse	82	55	78	55	-29.5	60	9.1
Apartments	46	30	4	30	**	20	-33.3
Starts - Total	428	371	404	330	-18.3	370	12.1
Average Price ($):							
Single-Detached	345,328	348,765	313,278	320,000	2.1	330,000	3.1
New Housing Price Index (% chg. Ontario)	3.5	0.1	2.4	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	2.4	6.0	4.1	4.3	-	4.0	-
Two-bedroom Average Rent (October) ($)	850	875	890	895	-	900	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	63,200	59,200	57,200	58,000	1.4	58,600	1.0
Employment Growth (%)	1.3	-6.3	-3.4	-	-	-	-
Unemployment rate (%)	6.1	7.5	9.7	9.1	-	8.4	-
Net Migration	486	309	326	440	35.0	490	11.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

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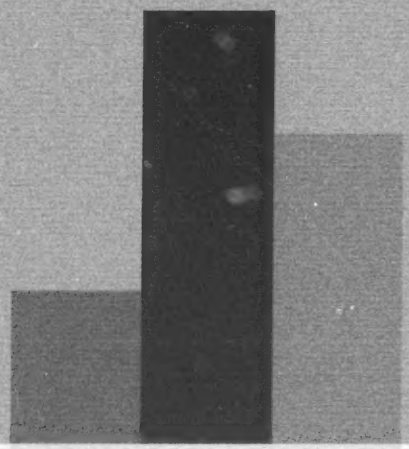

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